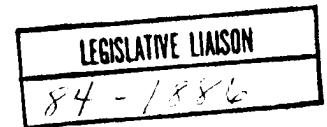




EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

my SW
SPECIAL

May 7, 1984



LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer-
Office of the U.S. Trade Representative
Department of Commerce
Department of Labor
Department of State
Central Intelligence Agency

SUBJECT: Treasury draft report on S. 2380, the "Fair Trade in Steel Act of 1984."

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than MONDAY, MAY 14, 1984.

Questions should be referred to Tracey Lawler (395-4710) the legislative analyst in this office or to Rick Nygard (395-3670).

Ronald K. Peterson
RONALD K. PETERSON FOR
Assistant Director for
Legislative Reference

Enclosures

cc: Greg Ballentine
Mike Horowitz
Kate Newman

*Completed Mally w/OMB 5/9/84
no objections*

SPECIAL



DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20220

MAY 2 1984

Director, Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Attention: Assistant Director for Legislative Reference

Dear Sir:

Enclosed are six copies of a proposed report to the Senate Committee on Finance concerning S. 2380, the "Fair Trade in Steel Act of 1984."

Is there any objection to the submission of the proposed report?

Sincerely yours,

A handwritten signature in cursive script that reads "Margery Waxman".

Deputy General Counsel

Enclosure



DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20220

Dear Mr. Chairman:

This report responds to your request for the Department's views on S. 2380, the "Fair Trade in Steel Act of 1984" (hereafter referred to as the "bill" or the "Act").

For the reasons stated below, the Department of the Treasury is opposed to the enactment of S. 2380.

PURPOSES

The bill is predicated upon a number of observations concerning the United States steel industry: (1) international trade in steel over the past two decades has been plagued by unfair trade practices; (2) excessive worldwide steel making capacity; (3) unsatisfactory financial performance by American steel producers having necessitated the deferral of many investment projects (some having been cancelled); (4) steel industry investment having been seriously jeopardized by the failure of existing trade statutes to deal effectively with unfairly traded steel imports; and (5) litigation in enforcing existing trade statutes is inadequate and, in the absence of a viable remedy, some legislative relief is considered essential. .

The bill declares that it is the intent of Congress to promote and expand the economic viability of the United States steel industry and to prevent the further decline of the domestic industry. Moreover, the bill declares it to be the policy of Congress that access to the United States market of foreign produced carbon, alloy, and specialty steel mill products should be on an equitable basis in order to safeguard the national security, ensure the orderly trade in steel mill products, reduce the unfair trade in steel, and to alleviate the United States balance of payments problems. To achieve all these things, the bill asserts that it is necessary to limit the import of steel mill products to approximately 15 percent of apparent domestic supply for at least a five-year period.

ANALYSIS

In order to equitably restrict the import of steel to approximately 15 percent of apparent domestic supply, the annual importation of each steel mill product category is to

be limited on the basis of adjusted average import penetration levels for the years 1979, 1980, and 1981. The product categories are relatively detailed and include such items as rail and track accessories, wheels and axles, bar shapes under three inches, standard pipe, bale ties, galvanized wire fence, and cold rolled sheet steel. In all, 36 categories of carbon and alloy steel articles are listed, together with ten specialty steel products. The Secretary of Commerce is required to allocate global product limitations among foreign countries. The Secretary is to be guided by: relevant provisions of the United States-European Community arrangement dated October 21, 1982, findings of unfair trade practices with respect to steel mill products, and such other considerations as appropriate.

Within 60 days after the effective date of the Act, and on each October 1st thereafter, the Secretary of Commerce is to determine the expected apparent domestic supply in each steel mill product category for the next succeeding calendar year. The determination would be published in the Federal Register. In January, April, and July, the determination would be revised and adjustments to the tonnage of each steel mill product category made, stating the amount permitted to be imported by each country, group of countries, or area. Thus, the intent of the Act is a quantitative restriction of steel mill products which ensures the entry of steel products in each category to be equalized, taking into account historical and seasonal variations.

If the aggregate quantity of any product category exceeds the allocation by more than 10 percent in any two consecutive quarters, additional quantitative restrictions would be imposed to achieve the required equalization. Nothing in the Act, however, is intended to result in material changes to historical patterns with respect to the regional distribution of imports of steel into the United States or the proportion of imports in any category of steel mill products.

Within 90 days of enactment, the Secretary of Commerce is required to determine whether companies in the steel industry have plans to utilize substantially all the cash flow from the steel sector for reinvestment in, and modernization of, the steel sector. If such plans do not exist, the quantitative restrictions are to be suspended

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until they are formulated. Therefore, the Secretary is expected to monitor steel sector investments made and announced by the steel industry, and on each anniversary of the Secretary's initial determination he shall evaluate whether the companies in the steel industry, taken as a whole, have substantially utilized all of the cash flow from the steel sector for reinvestment in the steel sector itself. If substantially less investment is occurring, and the level of investment is not demonstrably justified by adverse financial conditions, the quantitative limitations may be modified or suspended.

If steel consumers assert that domestic producers are unable to supply domestic demand, the Secretary shall examine the supply and demand situations for the specific product category. If domestic producers are in fact unable to meet domestic demand, additional tonnage of such articles, equal to the estimated shortfall, would be added to the amount permitted.

The importation of certain fabricated steel products will also be monitored. Whenever the Secretary of Commerce has reason to believe that fabricated steel mill products are being, or are likely to be, imported into the United States in such quantities as to render, or tend to render, the objectives of this Act ineffective, he shall so advise the President. The President shall request the United States International Trade Commission to initiate an investigation to determine the facts. In the case of an affirmative determination by the ITC, the President is authorized to impose import surcharges or such quantitative limitations on any articles of fabricated steel mill products as may be necessary. The specific fabricated steel mill products include 15 categories, consisting of such items as structural shapes, sashes and frames, fence or sign posts, and bolts, nuts, and rivets.

The aggregate quantity of iron ore to be imported would also be subject to quantitative restrictions with the amount to be imported not to exceed one-fourth of the expected apparent domestic supply. However, attempts are to be made to accommodate the requirements of individual steel mills which have traditionally been dependent upon imported iron ore. Enforcement provisions of the Act would be carried out by the Secretary of Commerce and the Secretary of the Treasury.

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The Act would automatically terminate after four years unless the President determines that it should be extended for an additional three years.

OBJECTIONS

The provisions of this bill are directly contrary to the stated policy of this Administration concerning the preservation of free trade. The bill represents an example of the most egregious form of trade interference while failing to hold out any hope of significant net economic benefits which might make enduring the economic distortions here involved worthwhile.

Some of the problems involved in imposing quantitative restrictions are evident from the provisions contained in the bill. There is, for example, a variety of steel mill products imported into the United States which come from numerous countries and areas of the world, and applying quantitative restrictions on a strictly neutral basis would constitute an administrative headache. Moreover, even with the flexibility built into the Act, the likelihood of the United States importing steel from new producers would be reduced because even highly efficient new producers would face an administrative hurdle in obtaining a share of the fixed U.S. market.

The provisions pertaining to enhanced investment in the steel industry are similarly troublesome. The Federal Government would be put in a position of judging the adequacy of the investment plans of the industry as a whole, and if found to be inadequate, would be confronted with the need to make a judgment to suspend the limitations. The political implications of such an eventuality are nightmarish to contemplate, as it would involve judging the adequacy of investment against prevailing economic conditions within the context of a commitment by the Federal Government to help the domestic steel industry.

The interrelated character of steel mill products with fabricated metal items, and steel inputs, necessitates further provisions to minimize the distortions which would be caused in related sectors. What these provisions serve to point up is that the steel industry does not exist in a vacuum, and intervention in such a key sector is sure to have important consequences in other parts of the economy.

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The imposition of quantitative restrictions must be recognized as having dubious appeal at the macroeconomic level. While employment may increase in the steel industry, it is highly likely that overall employment will be driven down because prices of steel will rise and have an adverse impact on steel consuming firms.

Finally, the possibility of trade retaliation makes the attainment of balance of payments improvements problematic.

OTHER OBJECTIONS

Assuming the bill is enacted as proposed, the Department does not have the manpower to administer it. For example, personnel (trained or otherwise) are not available to analyze the enhanced entry documents, to determine the category of imports, and to complete the paperwork required so that imported goods can be moved. Additionally, the administrative function is made more burdensome through the quarterly revision of quotas and the reports required to be made to the Department of Commerce.

SUMMARY

For the reasons stated, the Department opposes the enactment of S. 2380 for both policy and administrative considerations.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

Deputy General Counsel

The Honorable
Robert J. Dole, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510